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St. Paul, [Minn.]

1914

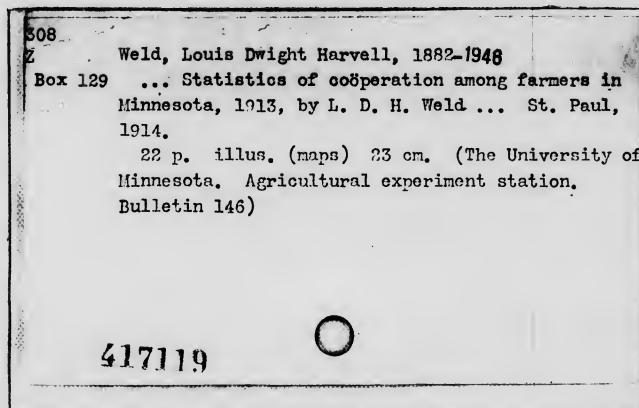
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AGRICULTURAL EXPERIMENT STATION

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**STATISTICS OF COÖPERATION AMONG  
FARMERS IN MINNESOTA**

1913

BY

L. D. H. WELD, Ph.D.

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STATISTICS OF COÖPERATION AMONG  
FARMERS IN MINNESOTA  
1913

By L. D. H. WELD

In 1913 the Minnesota Legislature enacted a law requiring the Department of Agriculture of the University of Minnesota "to collect statistics and information in reference to coöoperative associations among farmers and the management and methods of conducting such associations." It was enacted that it should be "the duty of all coöoperative associations to report annually to said department on blanks provided for that purpose." The carrying-out of this law was intrusted to the Division of Research in Agricultural Economics, which set about to prepare complete lists of coöoperative organizations in Minnesota, and blank forms for reports, and to secure the reports.<sup>1</sup>

It has been necessary to rely on the mails in obtaining these reports, and many organizations were not heard from in spite of repeated requests. Some reports, also, were so inaccurately and incompletely made out that they were of little value. It is believed, however, that enough definite information has been obtained from a sufficiently large number of the coöoperative organizations of Minnesota to make the results of interest and value. The general results appear in this bulletin, although more detailed information has been procured for certain kinds of organizations and will appear in future bulletins. Brief statistical descriptions are given herein of the principal kinds of coöperation, and no attempt is made to describe individual organizations.

SUMMARY

Although the figures in the accompanying table are largely estimated, they are sufficiently accurate to give a clear idea of the great volume of business transacted by coöoperative organizations in Minnesota, which in this respect leads all other states of the Union. Although there is still much to be accomplished in rural organization, these figures indicate that the farmers of this State are more thoroughly organized than is generally realized.

In general, the figures for the number of organizations apply to

<sup>1</sup> In the preparation of these statistics, valuable assistance was given by O. B. Jesness, Assistant in Marketing, R. H. Shoemaker, senior in the College of Agriculture, and Miss Olga Axness, Chief Clerk of the Division.

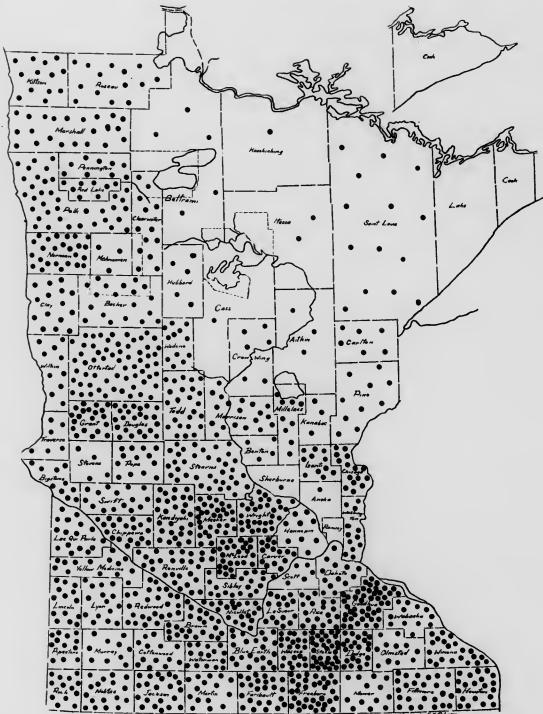


Fig. 1. Distribution of 1,340 Coöperative Companies by Counties in Minnesota, January 1, 1914

This is a composite map, including creameries, cheese factories, farmers' elevators, live-stock shipping associations, stores, insurance companies, and potato warehouses.

January 1, 1914, and those for the annual business to the calendar year 1913, although many companies reported for fiscal years ending during 1913, or early in 1914. The figures for coöperative elevators, for example, were largely for fiscal years ending in the summer of 1913, and covered the operations connected with marketing the crop of 1912.

NUMBER AND SUMMARY OF THE ANNUAL BUSINESS OF COÖPERATIVE ORGANIZATIONS IN MINNESOTA  
(Partly estimated)

	Number	Annual Volume of Business
Creameries .....	614	\$21,675,252
Elevators .....	270	24,000,000
Stock-shipping associations.....	115	6,000,000
Stores .....	120	4,250,000
Fire insurance companies <sup>2</sup> .....	154	696,732
Telephone companies.....	600	900,000
Cheese factories.....	34	637,224
Potato warehouses.....	20	100,000
Miscellaneous .....	86	2,500,000
Total .....	2,013	\$60,760,000

Among miscellaneous organizations are cow-testing associations, 11; fruit-shipping associations, 3; lumber yards, 5; laundry, 1; egg-shipping associations, 2; cattle- and horse-breeding associations, 60; wool-growers' warehouse, 1; terminal grain-marketing company, 1; butter-marketing association, 1; and terminal fruit- and produce-marketing association, 1. More than four fifths of the volume of business of these miscellaneous companies was transacted by the terminal grain-marketing company and the butter-marketing association.

COÖPERATIVE CREAMERIES AND CHEESE FACTORIES

Among the most important organizations, as affecting the well-being of farmers and the agricultural development of Minnesota, are the coöperative creameries. There are 614 in the State, which is not far from double the number in any other state, and nearly one third of the total number in the United States. Furthermore, coöperative creameries constitute 72 per cent of all creameries in Minnesota, and 42 per cent of all farmers in the State are patrons of coöperative creameries. There is no other important dairy state

<sup>2</sup> Figures represent receipts from premiums and are for the calendar year. (Forty-third Annual Report of the Commissioner of Insurance of the State of Minnesota, 1913, p. 32.)

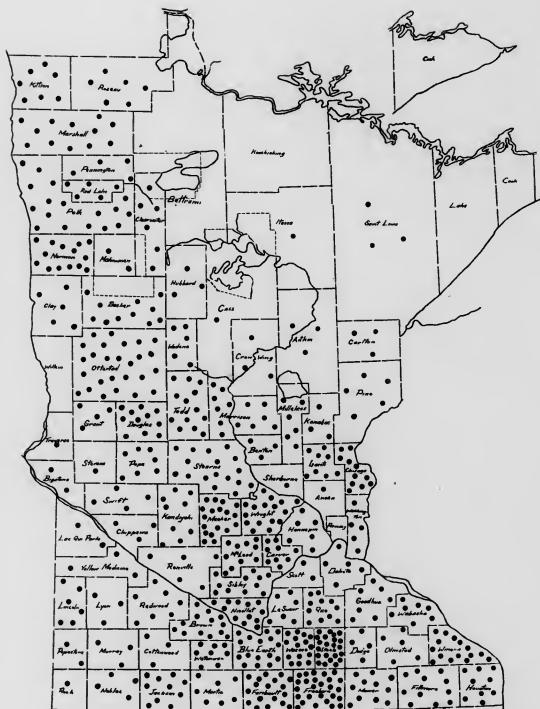


Fig. 2. Distribution of Coöperative Creameries by Counties, Minnesota,  
January 1, 1914

where the butter industry is controlled to such an extent by the farmers themselves.

Important facts about the coöperative creameries of Minnesota are as follows:

Total pounds of butter made in 1913.....	74,934,940
Average number of pounds per creamery.....	122,044
Total paid farmers for butter fat.....	\$19,988,321
Average paid farmers per creamery.....	\$32,554
Total running expenses.....	\$1,682,931
Expense per pound of butter made (cents)....	2.2
Total number of patrons.....	65,181
Average number of patrons per creamery.....	106
Total number of cows belonging to patrons....	504,975
Average number of cows per creamery.....	822

The general figures in the foregoing were compiled from the reports secured by the State Dairy and Food Department, and cover all the coöperative creameries in the State. Separate blanks were also sent out asking a number of supplementary questions, and answers were received from 282 creameries, or 45.9 per cent of all coöperative creameries in the State. The figures given below are based on these reports, and are believed to be sufficiently representative of conditions throughout the State.

In all but 3.5 per cent of the creameries the one-man-one-vote principle prevails. Sixty-five per cent limit the number of shares that each member may own. These limits vary from 1 share to 100. The average is practically 7 shares, but the most frequent limit is a single share. Information obtained on this point from 150 creameries appears in the following statement, where the creameries are grouped according to the maximum number of shares allowed to each member.

Maximum Number of Shares That One Person May Own	Number of Creameries
1.....	50
2.....	11
3.....	6
4.....	20
5.....	13
6.....	2
7.....	2
8.....	3
10.....	21
12.....	1
15.....	7

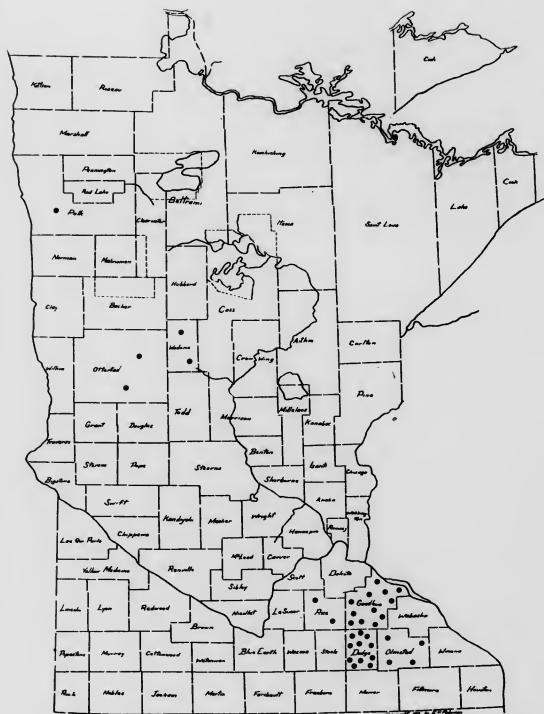


Fig. 3. Distribution of Coöperative Cheese Factories by Counties, Minnesota.  
January 1, 1914

20.....	7
25.....	2
50.....	2
100.....	1
Depends on number of cows.....	2
Total .....	150

Only about 20 per cent of the coöperative creameries of Minnesota make provision in their by-laws for the distribution of profits on a patronage basis. This, however, is not a serious matter, and does not indicate any failure to comply with coöperative principles, because a majority of creameries are operated on a no-profit basis, deducting from their gross receipts enough to cover expenses, and distributing the remainder from month to month according to the amount of butter fat brought by each patron. This is exactly equivalent to the patronage dividend, and is even better. In many of the older creameries, not even dividends on capital stock are paid.

Out of 229 creameries that reported how often patrons are paid for butter fat, 79.9 per cent (or practically four fifths) pay monthly; 15.3 per cent, semi-monthly; 1.3 per cent, weekly; and 3.5 per cent, daily. To pay patrons monthly is generally accepted as the best plan. The price paid for butter fat is then found by distributing the receipts of the previous month (minus expenses) over the total number of pounds of butter fat brought to the creamery. This method also involves the least amount of bookkeeping. When farmers are paid weekly or daily, it is more difficult to determine a fair price to be paid for butter fat, and it is difficult or even impossible to run safely on a no-profit basis. Under such conditions the patronage dividend is necessary in order to make the organization truly coöperative. The usual reason for paying patrons weekly or daily is that the competition of centralizers who pay cash for cream may be met. For a coöperative creamery to have to pay cash to farmers in order to keep them from shipping to centralizers, is an indication that the patrons are not over-loyal to their organization.

The 1913 business of the 34 coöperative cheese factories is summarized in the following statement:<sup>3</sup>

	Total	Average per Factory
Pounds of cheese made.....	4,201,743	123,581
Cash paid patrons.....	\$563,845	\$16,584
Expenses .....	\$73,379	\$2,158
Value of output.....	\$637,224	\$18,742

<sup>3</sup> Figures furnished by Minnesota Dairy and Food Department.

## FARMERS' ELEVATORS

On January 1, 1914, there were practically 270 farmers' elevators in Minnesota with an aggregate membership of approximately 34,500, an average of 128 members to a company. One farmer out of every five in the State is a member of a farmers' elevator company. The aggregate volume of business of these companies for the year following the harvesting of the 1912 crop was about \$24,000,000, of which about \$22,000,000 represents the value of grain marketed, and the other \$2,000,000 the value of supplies, such as coal, feed, twine, etc., purchased for members.

Many so-called "farmers' elevators" in Minnesota are not owned by farmers and should not be classed as coöperative companies. Even among the 270 elevators classified herein as coöperative, there are many which certain coöperation enthusiasts would undoubtedly exclude. But in all of the 270 elevator companies farmers own the majority of stock, and in all but 5.5 per cent of them each stockholder has but one vote irrespective of the number of shares owned. Furthermore, in five sixths of the companies the number of shares that may be owned by one person is limited. In other words, the elevators are not only owned by the farmers themselves, but they are controlled democratically by them.

The patronage or *pro rata* dividend, that is, the division of profits over and above a fair rate of interest on stock according to the business brought by each patron, is highly desirable and should be provided for in the by-laws of every farmers' elevator company. It is in this respect that the farmers' elevators of Minnesota fail to satisfy to the fullest extent the generally accepted essentials of coöperation, because only 26 per cent of the companies distribute profits in this way. There is some doubt about the desirability of laying so much importance on the patronage dividend, however, as an absolutely necessary feature of a coöperative organization. If an organization is run on a no-profit basis, as in the case of the great majority of Minnesota creameries, there is nothing to be distributed on a patronage basis. In coöperative stores, on the other hand, the patronage dividend is an absolute essential, because the only safe way to operate a store is to charge current prices as do competitors, a policy which, if the store is well managed, should yield a profit over and above a fair return on capital invested.

The farmers' elevator occupies a middle ground in this respect; under able management it can often be operated on practically a no-profit basis, but there are certain risks, especially in the handling of such grains as barley and flax, which render it dangerous to shave the margins too close, and the usual method is for elevators to pay

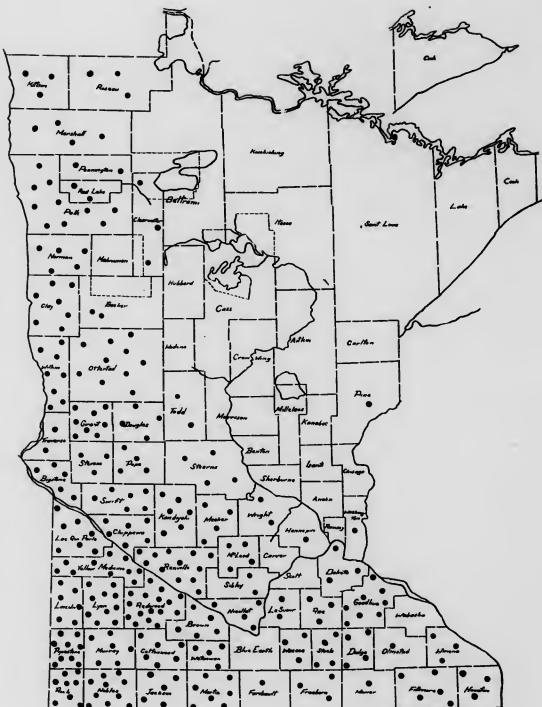


Fig. 4. Distribution of Farmers' Elevators by Counties, Minnesota, January 1, 1914

current prices as shown in the daily Grain Bulletin. If the farmer's grain is graded and docked correctly by the manager, there should normally be a profit, and hence the patronage dividend is a desirable feature. It is considered, however, that the elevators that are classified among the coöperative organizations of the State in this bulletin have a sufficient number of coöperative features to entitle them to such classification, especially as very few elevator companies pay exorbitant dividends. One hundred and thirty-nine companies reported dividends paid on stock as follows:

Rate of Dividends	Number of Companies Paying	Per Cent of Total
0.....	59	42.4
2.....	2	1.4
5.....	6	4.3
6.....	7	5.7
7.....	4	2.8
8.....	15	10.8
10.....	28	20.1
14.....	1	0.7
15.....	4	2.8
20.....	6	4.3
25.....	2	1.4
30.....	1	0.7
35.....	1	0.7
50.....	2	1.4
125.....	1	0.7
Total .....	139	100.2

Although several of the companies in the 42.4 per cent which paid no dividends actually lost money, most of them had small profits which were thrown into reserves. Of those that paid dividends, 10 per cent was the commonest rate. Out of 42 elevators that have the patronage dividend, 16 pay stock dividends of 10 per cent before distributing anything on patronage basis, and 13 pay 8 per cent. In other words, 8 or 10 per cent is apparently considered a fair rate of interest on capital invested. It will be noticed that out of 139 companies there were only 18 that paid over 10 per cent dividends. The one that paid 125 per cent has since changed to the patronage basis.

The coöperative purchase of supplies through farmers' elevators is an important feature. Out of 239 companies reporting, there are only 41 that do nothing but market grain. Of the total, 63 per cent handle coal; 40 per cent, flour; 41 per cent, feed; 35 per cent, binding twine; 18 per cent, seeds; 16 per cent, salt; 7 per cent, tile; and 7

per cent, farm machinery. There are also a few that handle lumber, fence posts, wire fencing, and cement.

#### COÖPERATIVE STORES

Although stated as 120 in the summary table, the actual number of coöperative stores in Minnesota is more or less problematical. Actual figures were received from 69 stores, and positive information as to the existence of several of the remainder was obtained. Although some may have gone out of business, it is believed that 120 is a conservative figure, because there are undoubtedly many coöperative stores, especially small ones at points away from the railroads, of which there is no record. The aggregate sales of 61 stores in 1913 amounted to \$2,593,633, an average of \$42,518 to the store.<sup>4</sup> The smallest business reported by a single store was \$5,312, and the largest, \$161,850.

The history of the coöperative-store movement from the earliest days is not particularly encouraging, because undoubtedly more attempts have failed than have succeeded; but there are no figures to prove that the experience of coöperative stores has been much, if any, worse than that of privately owned stores. There are sufficient indications that within the last few years the coöperative-store movement has been proceeding on a more substantial and business-like basis. There are many stores that are in a very prosperous condition, and there are many that have been in business for a long time, although the following figures show that the great majority of those now in business have been organized within the last six or seven years.

#### YEAR OF ORGANIZATION OF 62 COÖPERATIVE STORES

Year of Organization	Number of Stores
1893.....	1
1894.....	1
1899.....	1
1900.....	1
1903.....	1
1904.....	1
1905.....	2
1906.....	3
1907.....	2
1908.....	6
1909.....	5
1910.....	8

<sup>4</sup> That the total volume of business as estimated in the summary table is conservative is indicated by the fact that the average business per store on this basis would be only about \$35,400.

1911.....	14
1912.....	9
1913.....	7

Fifty-nine stores reported a total of 6,160 stockholders, an average of 104 per company. Taking this as an average for the 120 stores, there are in the neighborhood of 12,000 people who are members of coöperative-store companies in Minnesota. Farmers own 86 per cent of the stock and this is one of the significant features of the coöperative stores of the State: they are not found in the large cities, but are located in the villages and at country crossroads, and are owned and operated by farmers. All have the one-man-one-vote principle, and out of 53 stores, all but 7 limit the number of shares that one person may own. Nearly half of these limit to 10 shares apiece, while some limit to 5 apiece.

Although the coöperative stores uniformly provide for patronage or trade dividends, there are many which have not had sufficient profits to pay any. In fact, out of 57 stores reporting, there were 18 that paid no dividends, even on stock. The average rate of stock dividend paid by the other 39 was 6.19 per cent. Twenty-eight paid trade dividends, an average rate of 5.6 per cent to members, and 3.5 per cent to non-members. The practice as to the payment of trade dividends to non-members varies. Out of 23 stores which reported on this point, there were 6 that paid the same rate to both members and non-members; 10 that paid members at twice as high a rate as non-members; and 7 that paid trade dividends to members only.

Other figures are as follows:

	Number of Stores Reporting	Average per Store per Store
Gross sales .....	61	\$42,518
Paid for merchandise.....	61	35,178
Gross profit .....	61	7,340
Total expense .....	61	4,620
Proportion of expenses to sales.....	61	10.9%
Net profit .....	61	\$2,720
Salary of manager.....	54	908
Value of goods on hand, January 1, 1914..	57	13,226
Paid-up capital .....	64	9,880
Proportion of credit to total sales.....	50	31%
Proportion of total sales to members.....	50	59%

One of the most significant facts brought out by this table is that, on the average, expenses constitute only 10.9 per cent of sales. No adequate figures are available for comparison with private retail

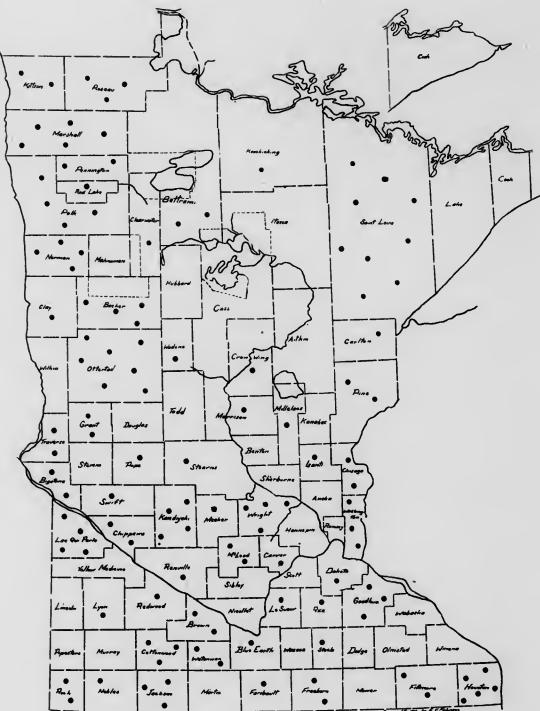


Fig. 5. Distribution of Coöperative Stores by Counties, Minnesota,  
January 1, 1914

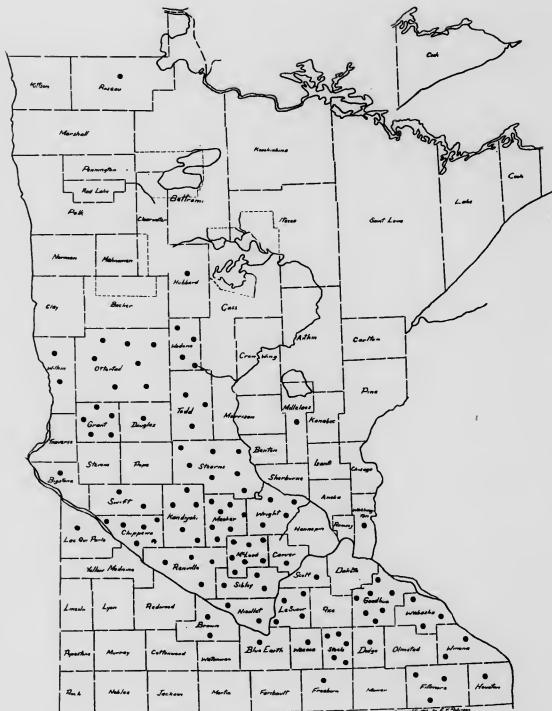


Fig. 6. Distribution of Live-Stock Shipping Associations by Counties, Minnesota, January 1, 1914

stores, which undoubtedly run higher. In one community in the State it has been found that the average cost of doing business in three privately owned general stores was between 17 and 18 per cent. This is unusually high, but there is reason to believe that on the whole coöperative stores compare very favorably with private stores in efficiency as measured by percentage of expenses to sales.

#### LIVE-STOCK SHIPPING ASSOCIATIONS

The most important recent development in coöperative marketing in Minnesota is the formation of live-stock shipping associations, and in this respect also Minnesota is by far the leading state of the country. The movement began in 1908, and has been spreading very rapidly, especially since 1911. Here again, the exact number of associations is difficult to ascertain, but it is placed at 115 on January 1, 1914. Many have been organized since that date. The total value of live stock marketed through these associations is also estimated. The average for 61 associations in 1913 was \$59,692 per association, but many of these associations had been formed during the year, and hence their reports cover less than twelve months. The estimated figure of \$6,000,000 shown in the summary table is obtained roughly by multiplying the average by 100—a fairly conservative basis for estimation. This amounts to about 12 per cent of the value of live stock marketed by Minnesota farmers.

	Total	Average per Association
Carloads of stock marketed.....	4,500	44.7
Cattle marketed .....	3,300	329
Hogs marketed .....	250,000	2,372
Calves marketed .....	30,000	465
Sheep marketed .....	15,000	192
Average expense per association.....		\$2,760
Average expense per 100 pounds.....		\$0.33
Total weight of all stock marketed, 86,000,000 pounds		

It will be observed that the average expense per 100 pounds is 33 cents. This includes not only the freight (usually to South St. Paul), yardage, switching, commission, etc., but also the salary of the manager of the association, who is ordinarily paid on the basis of a certain amount per hundredweight (usually 6 cents), as well as a small amount commonly set aside from each shipment for a sinking fund. Under the old method of marketing live stock through local buyers, the margin between the farmer and the buyer at the terminal market is much greater, running from 40 to 75 cents per hundred pounds, and sometimes higher. By assuming 50 cents as an extremely con-

servative estimate, the shipping associations saved the farmers of Minnesota over \$1,000 per association in 1913. In view of the fact that there is no investment of capital necessary, and since this estimate is very conservative, the economic value of shipping associations becomes readily apparent.

#### COÖPERATIVE TELEPHONE COMPANIES

The actual number of coöperative telephone companies is only conjectural. Every telephone company in the State is subject to a tax on its gross earnings, and a list of companies is published in the Biennial Report of the State Auditor. There is no way of knowing whether this list is complete, or of knowing which may be classed as coöperative. The number of telephone companies of all kinds has increased from 148 in 1905 to 350 in 1909, 590 in 1911, and 873 in 1913.<sup>5</sup> Out of the 590 companies in 1911, there were 239 in whose official names appeared at least one of the words "farmers," "rural," "coöperative," or "mutual," but there are many farmers' lines whose names do not include any one of these four tell-tale words. Even with full information about every company, it would be well-nigh impossible to draw the line between coöperative and non-coöperative companies, because there are so many small companies that serve and are owned by both farmers and village people, and that may be coöperative in perhaps only one or two features.

Detailed information was obtained from about 200 farmers' telephone companies. It appears that about 43 per cent of these are not incorporated, and thus exist merely as voluntary associations. Out of 167 companies, 135, or 81 per cent, reported that a member might have but one vote irrespective of the number of shares held in the company. Out of 160 companies, 124, or 77.5 per cent, limit the number of shares that one person may own; about two thirds of these set the limit at one.

One hundred and sixty-two companies have an average of 72 stockholders, 76 subscribers, and 72 miles of line, per company. In other words, there is approximately one subscriber for each mile of line. The average gross receipts of 146 companies were \$1,500, and the average expenses, \$970. Out of 133 companies reporting, 113, or 85 per cent, paid no dividends at all; the rest paid dividends ranging from 2.5 to 20 per cent. On the whole, these companies are not run for profit. The cost of telephone service per year averages only \$5.94, and in some of the smaller companies the rate is less than this. The subscriber usually has to buy his own instrument (costing

\* From a list furnished by the Public Examiner of Minnesota.

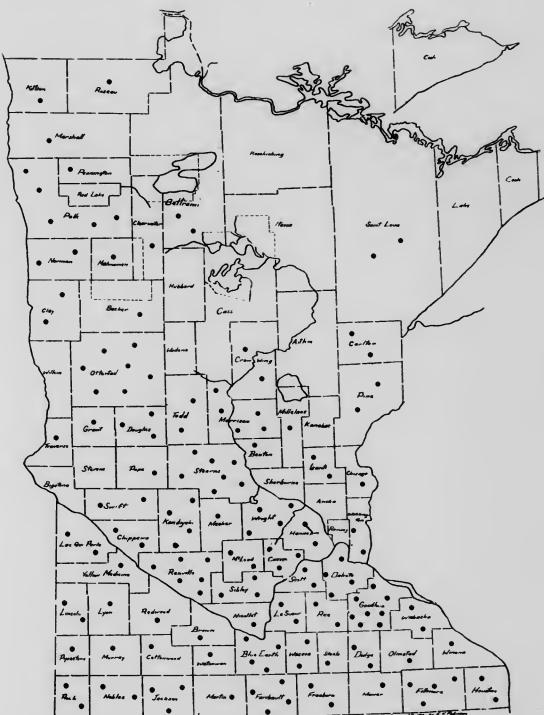


Fig. 7. Distribution of Farmers' Mutual Insurance Companies by Counties, Minnesota, January 1, 1914

about \$12 or \$13), and has to make, or have made at his expense, his connection with the main line. Furthermore there is likely to be an almost inconceivable number of subscribers on one line. When rural lines enter villages, a higher charge is sometimes made to business men than to householders.

#### INSURANCE COMPANIES

In two respects the "township mutual" insurance companies are unique: They were the first permanently successful form of coöperation developed in Minnesota; and not one has ever failed. It is claimed that the first two companies were started as early as 1867.<sup>6</sup> The total business transacted by these companies is given in the summary table as \$696,732, and this represents the receipts from premiums. The total amount of insurance in force on January 1, 1914, was \$342,223,319. The growth of these farmers' fire insurance companies is shown in the following table:

	Insurance in Force	Losses Incurred	Cost per \$100 Insurance in Force
1878.....	\$923,678	\$425	\$0.14
1880.....	1,704,210	568	.08
1885.....	8,034,124	6,310	.14
1890.....	24,931,347	27,677	.15
1895.....	60,268,706	79,566	.17
1900.....	121,999,087	150,201	.19
1905.....	190,911,471	227,844	.17
1910.....	274,003,046	363,833	.18
1913.....	342,223,319	513,973	.18

The cost of insurance in these companies has been very low; in 1913 it was 18 cents per \$100. The rate of the stock companies which still solicit this business is 46 cents per hundred per year on three-year contracts. On the \$342,000,000 of insurance carried by the township mutuals, these companies saved the farmers of the State \$957,600 in the year 1913. The actual saving is much greater than this because the rates charged by the old-line companies have been forced down by the competition of the farmers' companies. It has been estimated that the total saving for 35 years up to 1910, allowing for the effect of competition in reducing the rates of old-line companies, and for compound interest on the premium charges saved from year to year, would probably be about \$20,000,000.<sup>7</sup>

The number of policies in force on January 1, 1914, was 158,283,

<sup>6</sup> Valgren, V. N., Farmers' Mutual Fire Insurance in Minnesota, Quarterly Journal of Economics, Feb. 1911, p. 387.

<sup>7</sup> *Ibid.*

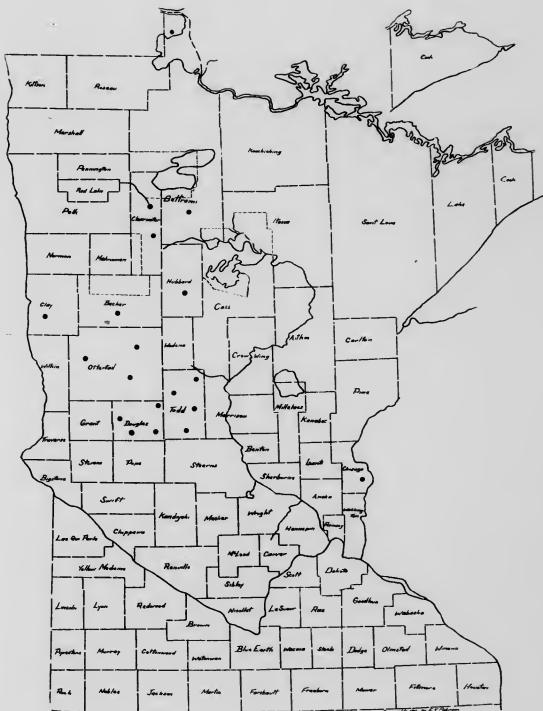


Fig. 8. Distribution of Coöoperative Potato Warehouses by Counties, Minnesota, January 1, 1914

or about 2,000 more than the number of farms in the State. This is accounted for by the fact that personal property and buildings are commonly insured on separate policies. It is a conservative estimate, however, that 75 or 80 per cent of all farmers in Minnesota are insured in these coöperative companies.

There are also 7 "mutual" hail and cyclone insurance companies in Minnesota, but there are only 3 that are actually owned and managed by farmers. The latter write only cyclone insurance, and had \$7,957,630 of insurance in force on January 1, 1914.

Other figures bearing on the coöperative fire insurance companies of Minnesota in 1913 are as follows:

	Total	Average per Company
Assets at beginning of year.....	\$399,500.16	\$2,594.09
Receipts during year.....	696,731.65	4,524.23
Losses paid.....	501,418.64	3,255.97
Expenses paid .....	195,133.18	1,267.10
Assets at end of year.....	399,679.99	2,595.32
Number of policies in force at end of year .....	158,283	1,028
Amount of insurance in force at end of year .....	\$342,223,318.83	\$2,222,230.64

22592

**END OF  
TITLE**